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FISCAL IMPACT STATEMENT

LS 6125

BILL NUMBER: HB 1048

NOTE PREPARED: Feb 17, 2011

BILL AMENDED:

SUBJECT: 1977 Fund.

FIRST AUTHOR: Rep. Niezgodski

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: *Pre-1990 Line-of-Duty Disability Determinations.* This bill:

- (1) allows a certain member or survivor of a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) who applied for disability prior to 1990 and is receiving a disability benefit to apply to a local board for a recommendation as to whether the member's disability occurred in the line of duty;
- (2) provides that the local board shall make a recommendation of its findings to the 1977 Fund Advisory Committee;
- (3) provides that the 1977 Fund Advisory Committee shall make an initial determination of whether the member's disability occurred in the line of duty;
- (4) provides that if the 1977 Fund Advisory Committee fails to timely provide an initial determination, the default determination will be made by the Public Employees' Retirement Fund's (PERF) medical authority;
- (5) provides that the PERF Board makes a final determination of whether the member's disability occurred in the line of duty;
- (6) establishes procedures to appeal: (A) a recommendation by the local board; (B) an initial determination by the 1977 Fund Advisory Committee; or ©) an initial default determination made by the PERF medical authority;
- (7) provides that a certain member or survivor of a member may apply to the local board within two years

of the PERF board providing notice that it has received a favorable ruling from the Internal Revenue Service;

(8) provides that the PERF Board shall provide notice to certain 1977 Fund members of the Internal Revenue Service's ruling within 30 days of its receipt;

Deferred Retirement Option Plan (DROP) and the Partial Lump Sum Distribution. The bill also does the following:

(9) provides that an active member of the 1977 Fund who has entered the Deferred Retirement Option Plan before July 1, 2011, may elect to receive a partial lump sum distribution;

(10) provides that if a 1977 Fund member who has entered the DROP before July 1, 2011, elects a partial lump sum distribution: (A) the 1977 Fund member shall exit the DROP; and (B) the 1977 Fund member's retirement benefits are calculated as if the 1977 Fund member had never entered the DROP; and

(11) provides that a 1977 Fund member who enters the DROP after June 30, 2011, may not elect to receive a partial lump sum distribution.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: Upon passage; July 1, 2011.

Explanation of State Expenditures: *Pre-1990 Line-of-Duty Disability Determinations (Parts 1-8, above)*- As administrators of the 1977 Police Officers' and Firefighters' Pension and Disability Fund, PERF will incur a minimal expenditure \$16,500 for filing fees and an outside counsel.

Explanation of State Revenues:

Explanation of Local Expenditures: *DROP and the Partial Lump Sum Distribution (Part 9-11, above)*- The summary table below shows the impact of the DROP provisions and the partial lump sum distribution.

<i>Summary Table</i>	
Increase in Unfunded Actuarial Unfunded Accrued Liability	\$5 M
Decrease in Funded Ratio	97.99% to 97.84%
No Change in Contribution Rate	19.50%

Background Information-

1977 Police Officers' and Firefighters' Pension and Disability Fund Impact of Proposed Benefit Changes as of July 1, 2009 Total (\$ in millions)			
	7/1/2009 Valuation Results Before Change Baseline	Description of Proposed Change	
Actuarial Accrued Liability		<u>Impact of Change</u>	<u>After Change</u>
Active & Inactive Members	\$2,539.5	\$5.0	\$2,544.5
<u>Pay Status Members</u>	<u>793.2</u>	<u>-</u>	<u>\$793.2</u>
Total	\$3,332.7	\$5.0	\$3,337.7
Actuarial Value of Assets	\$3,265.6	-	\$3,265.6
Unfunded Actuarial Accrued Liability	\$67.1	\$5.0	\$72.1
Funded Ratio	97.99%	-0.15%	97.84%
Valuation Payroll	\$649.0		\$649.0
Actual Contribution Rate, after smoothing	19.50%		19.50%
Total cost after smoothing	\$126.6		\$126.6

Up until June 30, 2012, members in the DROP program as of July 1, 2011, (or actual amendment date) are allowed the option to elect between the DROP program or a benefit payable at retirement without reference to the DROP program payable under the partial lump sum option under the Plan.

The \$5 M estimate for the impact of the change in the actuarial accrued liability is a high-level estimate based on the assumed first-class salary of \$50,000 for all participants in the DROP. The estimate assumes approximately 270 members in the DROP for three years who are younger in age and service when electing the DROP (i.e., more heavily weighted to a retirement age of 52 and 20 years of service at the time of the DROP election). The actual impact will depend on the age and service of the participants in the DROP and the opportunity level of adverse selection due to adding the option to elect partial lump sum distribution.

The partial lump sum distribution option is actuarially equivalent to the benefit amount payable at retirement without the DROP.

Due to contribution rate smoothing under the plan, the contribution as a percentage of salary would remain at 19.50%.

Explanation of Local Revenues:

State Agencies Affected: PERF as administrators of the 1977 Fund.

Local Agencies Affected: Units with members in the 1977 Fund.

Information Sources: Cindy Fraterrigo, Price Waterhouse Coopers, actuaries for PERF, Chicago, IL, 312-298-2134.

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DEFINITIONS

Actuarial Accrued Liability – The actuarial accrued liability of a retirement system at any time is the excess of the present value of all benefits thereafter payable under the system over the present value of future normal cost accruals, determined by the actuarial cost method.

Lump Sum Distribution: a payment to a plan participant or beneficiary for the entire amount in a retirement account as a single cash payment versus a series of payments over time.

Smoothing - An actuarial technique used to help plan sponsors manage cost volatility in benefit programs.